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AMBIF driving standardization across Asean+3's local currency bond markets

Mr Kiyoshi Nishimura, CEO, CGIF

The Asean+3 governments and regulators are maintaining their drive to create standardized bond and note issuance practices. The AMBIF initiatives began in 2014 and were followed by a pilot issue in the Thai baht bond market in 2015. Although there has been a hiatus since then the impetus towards uniformity is as strong as ever.

The local currency bond markets of Asean+3 have grown in size and sophistication in the past five years, and especially since the 2008 global financial debacle.

As a direct result of the efforts made by the Asean+3 governments and regulators, the region's local currency bond markets have expanded dramatically.

Aggregated outstanding local currency bonds in Asean plus the PRC and the Republic of Korea (but not including Japan) increased from US$1.349 trillion at the end of 2003 to $10.033 trillion at the end of June 2016, making it comparable with the size of Japan's bond market.

Some of Asean+3's local currency bond markets have grown to comparable levels to the developed markets in terms of GDP.

But there is much work to be done to elevate them. Despite this remarkable development, intraregional investment in bond markets has remained subdued.

As ADB has estimated that developing Asia will need to invest US$26 trillion from 2016 to 2030 (equivalent to $1.7 trillion per year) in infrastructure for its continued growth, it is critical to mobilize the region's vast savings towards these vast investment needs. As an essential platform for such resource mobilization, the financial markets in Asean+3 need to be more harmonized and integrated through the AMBIF.

Progress aiding stability

"There is no doubt that there has been considerable progress in the Asean+3 region's bond market infrastructure and capabilities," says Satoru Yamadera, Principal Financial Sector Specialist at the Asian Development Bank (ADB) in Manila.

"This progress definitely helped the region to weather the global financial crisis of 2008-9, with the local currency bond markets functioning as a 'spare tyre' for the stressed banking sector. The next phase of the evolution will be further market integration to mitigate volatility caused by capital flows while benefiting from capital account openness."

The 10 Asean countries and the +3 nations - the People's Republic of China (PRC), Japan, and the Republic of Korea (Korea) - launched the Asian Bond Markets Initiative (ABMI) back in 2003 to boost the development of local currency bond markets, especially in the emerging economies of SE Asia.

ABMI initiatives gain traction

ABMI's big picture aim is to develop efficient and liquid bond markets in Asia, which would enable better utilization of Asian savings for Asian investments.

The ABMI would also contribute to the mitigation of currency and maturity mismatches in financing.

The overreliance on external short-term foreign currency borrowing to finance long-term domestic investments - often referred to as the double mismatch problem – was a major factor in the Asian financial and currency crisis in 1997.

Yamadera recalls: "The ABMI was intended to address the double mismatch problem and to channel savings within Asean+3 toward long-term investment."

ADB's central role

The ADB has served as the ABMI's secretariat since inception as a part of ADB's strategy to support greater financial, fiscal, and macroeconomic stability in the region.

Impressive progress has been made since 2003, with the pace of evolution picking up greatly in more recent years. Yamadera and others are confident that they are on track towards the standardization of issuance practices in the region, which should further enhance growth and cross-border issuance and investment flows.

The drive that Yamadera highlights towards conformity and uniformity was given its first

GROWTH OF ASEAN+3 LCY BONDS

Growth of Local Currency Bond (excl. JP)

Source: Asia Bonds Online

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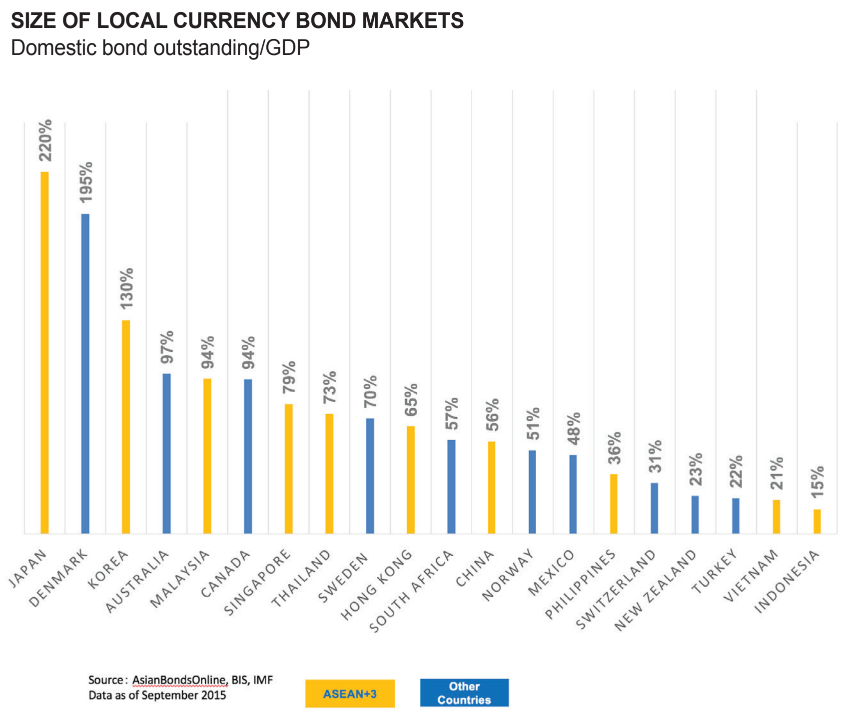

powerful push in 2010 when the Asean+3 Bond Market Forum (ABMF) was established by the Asean+3 finance ministers. This quickly became an important regional platform among the public and private sector experts to foster standardization of market practices and harmonisation of regulations relating to cross-border bond transactions in Asean+3.

The ABMF released its Asean+3 Bond Market Guide in 2012. That was the first officially recognized publication of bond market regulations and settlement procedures of the respective Asean+3 economies. "The guide helped narrow information gaps and increase market transparency, which was often regarded as the biggest barrier to entry," notes Yamadera.

Enter the AMBIF

In 2014, to provide policy recommendations to standardize securities transaction flows in the region, the ABMF then published several reports and proposals that further enhance the drive towards standardization and transparency. This gave birth to the Asean+3 Multi-Currency Bond Issuance Framework (AMBIF), a policy initiative under the ABMI that has gained prominence since early 2014.

AMBIF was introduced to help facilitate intraregional transactions through standardized bond and note issuance and investment processes. By doing so, the plan was that it would facilitate the process of recycling savings within the region in a practical and efficient manner.

The AMBIF aims to address the diverse regulations and market practices among the 10 members of the Association of Southeast Asian Nations (Asean), namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam and the Philippines, as well as the +3 countries, China, Japan and South Korea.

Pragmatic objectives

AMBIF was proposed as a regionally standardized bond issuance framework due to different degrees of market developments, different legal and regulatory frameworks, and different market practices. Though the goals cannot be achieved overnight across so many countries and markets, this became possible because AMBIF focuses on professional markets, which are relatively similar because professionals do not require the same level of protection as retail investors, hence, they can be exempted from various local requirements. Under AMBIF guidelines, issuers can reference only one set of guidelines in raising funds in an unfamiliar market instead of dealing with different applications in various territories, reducing the time needed to obtain regulatory approval.

The AMBIF is pragmatic in its outlook and has throughout the process recognized that it is not practical to have a fully standardized bond issuance framework, although common elements may allow opportunities for connecting the domestic bond markets across the region. AMBIF is therefore designed to capture these common elements by focusing on the professional markets in the region.

Accordingly, AMBIF is seeking only the minimum standards that are still essential for launching it, while accepting other related regulations for the time being. But the practices should be driven by striving towards standards comparable to the international market.

AMBIF created the Single Submission Form (SSF), which is aimed at facilitating an AMBIF bonds/notes issuance application to regulatory, listing and registration authorities in each participating market. SSF is prepared for the benefit of issuers aiming to issue bonds/notes to professional investors in Asean+3.

"Where a market does not require the physical submission of documentation, the SSF can serve as a checklist or a guiding template," reports Yamadera.

"The language is English, and the governing law related to settlement needs to be local, although the governing law and jurisdiction for specific service

Mr Satoru Yamadera, Principal Financial Sector Specialist, Asian Development Bank (ADB)

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provisions may be negotiated and agreed between the parties involved in the issuance."

Mizuho's 'pilot' Thai baht AMBIF issue

The combined thrust provided a platform for the issuance of the first AMBIF pilot issue in Thailand in September 2015. The bond was cross-listed in the Tokyo Pro-bond market, adding further credibility to the exercise.

The Thai SEC-approved offering by the Mizuho Bank raised Thb3 billion in baht-denominated bonds, making it the first issue under the AMBIF cooperation. Bond issuers will be able to raise funds through multi-jurisdictional offerings to non-retail investors with a standard filing form prepared in English. The deal represented another milestone for the Thai capital market. Siam Commercial Bank was the sole lead manager for the offering. The notes were placed in Thailand and listed on the Tokyo Pro-Bond market.

"We learned several important lessons from that first Thai baht issue," recalls Yamadera. "We have to build experience and confidence in order to introduce international market practices into the domestic Asean markets. Regulators might want to achieve certain goals, but the market needs to be educated and nurtured to achieve the best outcomes." Yamadera sees a positive outlook for future AMBIF issues. The framework is mainly intended for Asean+3 companies who want to increase their local funding for their foreign subsidiaries. "We are making considerable efforts to raise awareness in the market," he adds.

He also expects to increase the number of AMBIF participating markets from the original six markets (Hong Kong/China, Japan, Malaysia, Philippines, Singapore and Thailand) to as many countries as possible, with Indonesia, Vietnam, Cambodia, Laos, Myanmar and Brunei as the key targets.

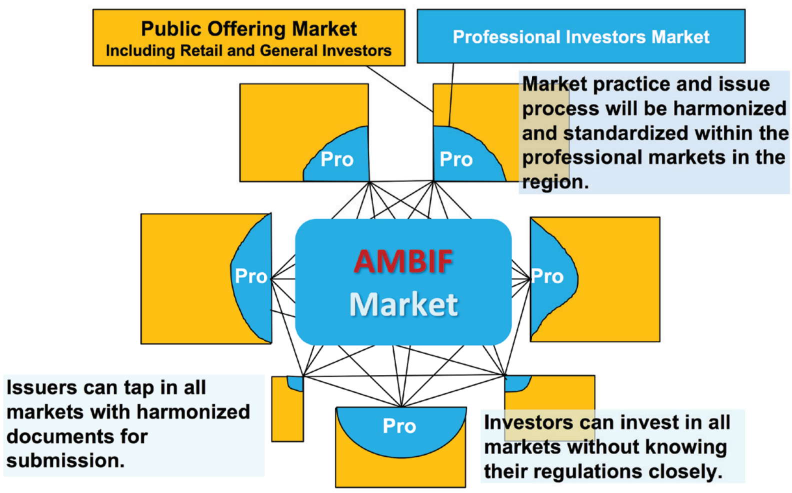
This expression of optimism and high hopes for AMBIF is echoed by Kiyoshi Nishimura, CEO of Credit Guarantee and Investment Facility (CGIF), a regional guarantee facility established by ABMI to support the development of local currency bond markets in the region. "After a slow start," Nishimura observes, "we are now witnessing increasing interest in AMBIF among our potential clients as a new funding platform to support their regional expansion. In fact, CGIF is currently working on several AMBIF transactions with an aim to close some of them in the first half of this year."

Next step for AMBIF

ADB and CGIF are currently aiming to create the first bond issue in Cambodia under AMBIF. Though there are still many regulatory and technical issues to be clarified, the Cambodian authorities are strongly supportive of the country's first pilot issue. "AMBIF is viewed as a very positive contributor to helping to create robust and active local currency bond markets by the Asean+3 authorities," Yamadera explains. "We are seeing increasing demand in local currency finance as the economies are shifting from production-based to more consumer markets."

Although creating a new market is always challenging, Yamadera is confident that key people are gradually understanding the merits of AMBIF. "We are hopeful we can introduce the AMBIF concept into the remaining markets such as Indonesia and Vietnam very soon, as we have already identified potential issuers and investors in these markets. With the support of Asean+3 governments, AMBIF will definitely link the markets and facilitate recycling of funds within the region."

WHAT AMBIF CAN ACHIEVE?



AMBIF ELEMENTS

AMBIF Elements (AMBIF Core Components)	Brief Description
Domestic Settlement	Bonds/notes are settled at a National CSD in ASEAN+3
Harmonized Documents for Submission (Single Submission Form)	Common approach of submitting information as input for regulatory process(es) where approval or consent is required. Appropriate disclosure information along with ADRB recommendation needs to be included.
Registration or profile listing at ASEAN+3 (Place of continuous disclosure)	Information on bonds/notes and issuer needs to be disclosed continuously in ASEAN+3. Registration or listing authority function is required to ensure continuous and quality disclosure.
Currency	Bonds/notes are denominated in currencies normally issued in domestic bond markets of ASEAN+3
Scope of Issuer	Resident of ASEAN+3
Scope of Investors	Professional investors defined in accordance with applicable laws and regulations or market practice in each market in ASEAN+3